

ORIGINAL OPEN MEETING ITEM

COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS



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EXECUTIVE DIRECTOR

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ARIZONA CORPORATION COMMISSION

DATE: MAY 10, 2011

2011 MAY 10 A 9:25

DOCKET NO.: W-02467A-10-0483

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Sarah N. Harpring. The recommendation has been filed in the form of an Order on:

GRANITE MOUNTAIN WATER COMPANY, INC.
(FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

MAY 19, 2011

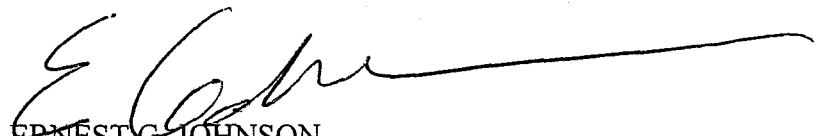
The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

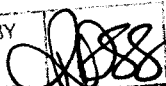
MAY 24, 2011 and MAY 25, 2011

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

MAY 10 2011


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DOCKETED BY 

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 GARY PIERCE - Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

8 IN THE MATTER OF THE APPLICATION
9 OF GRANITE MOUNTAIN WATER COMPANY,
10 INC. FOR AUTHORITY TO INCUR LONG-
11 TERM DEBT.

DOCKET NO. W-02467A-10-0483

DECISION NO. _____

12 **ORDER**

13 Open Meeting
14 May 24 and 25, 2011
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 This case involves an application filed with the Arizona Corporation Commission
18 ("Commission") by Granite Mountain Water Company, Inc. ("Granite Mountain") requesting
19 authority to obtain \$181,320 in long-term debt, in the form of a loan from the Water Infrastructure
20 and Finance Authority of Arizona ("WIFA") and/or, if necessary, from National Bank of Arizona.
21 Granite Mountain intends to use the loan to finance water system improvements.

22 * * * * *

23 Having considered the entire record herein and being fully advised in the premises, the
24 Commission finds, concludes, and orders that:

25 **FINDINGS OF FACT**

26 **Background**

27 1. Granite Mountain is a for-profit Class D water utility providing service to
28 approximately 110 customers in a service area located approximately three miles north of Prescott, in
Yavapai County.

2. In Decision No. 71869 (September 1, 2010), *inter alia*, the Commission granted
Granite Mountain a rate increase and denied retroactive approval of a \$125,000 line of credit and of

1 three loans totaling \$132,793.65. At the time Decision No. 71869 was issued, Granite Mountain
2 intended to drill a new well to replace its inactive Well No. 5 and planned to add a second 50,000-
3 gallon storage tank in the same area in which a new 50,000-gallon storage tank was already under
4 construction. In the Decision, the Commission determined that Granite Mountain had inadequate
5 storage capacity and ordered Granite Mountain to remedy the problem either by drilling a
6 replacement well for its existing Well No. 5 or by constructing and installing a 110,000-gallon
7 storage tank. The Decision required Granite Mountain, under either option, to file an Arizona
8 Department of Environmental Quality ("ADEQ") Approval to Construct ("ATC") within six months
9 and an Approval of Construction ("AOC") within 18 months.

10 3. In Decision No. 72294 (May 4, 2011), pursuant to a Granite Mountain request,¹ the
11 Commission extended the timeframes for filing the ATC and AOC for the replacement well to
12 September 1, 2011, and September 1, 2012, respectively.

13 4. Granite Mountain's water system is in compliance with ADEQ requirements and is
14 providing water that meets the water quality standards of Arizona Administrative Code ("A.A.C.")
15 Title 18, Chapter 4.

16 5. Granite Mountain is located in the Prescott Active Management Area and is in
17 compliance with Arizona Department of Water Resources ("ADWR") requirements governing water
18 providers and/or community water systems.

19 6. The Staff Report stated that Staff's compliance database identified one delinquent
20 compliance item for Granite Mountain, the failure to file, by March 1, 2011, the ATC for either the
21 110,000-gallon storage tank or the replacement well for Well No. 5. This delinquent compliance
22 item was remedied through the extension granted in Decision No. 72294.

23 **Procedural History**

24 7. On December 2, 2010, Granite Mountain filed in this docket an application for
25 authority to incur long-term debt in the amount of \$181,320 to finance water system improvements
26 including the replacement well for Well No. 5 and a new 50,000-gallon water storage Tank No. 3.

27 _____
28 ¹ With its request, Granite Mountain had included a letter from ADEQ, dated February 16, 2011, acknowledging receipt of the project information for the replacement well.

1 Granite Mountain requested authorization to obtain a loan in the amount of \$108,792 from WIFA and
2 a loan in the amount of \$72,528 from National Bank of Arizona. Granite Mountain stated that if
3 WIFA were to deny the loan or reduce the amount of the loan, Granite Mountain would seek to
4 obtain a loan for the entire amount or the difference from National Bank of Arizona. Granite
5 Mountain stated that the loan from National Bank of Arizona would be structured as a non-revolving
6 line of credit. With its application, Granite Mountain included a certification that Granite Mountain
7 had notified its customers of the application on November 30, 2010.

8 8. On December 22, 2010, a Procedural Order was issued identifying several substantive
9 errors in the notice included with the application and requiring Granite Mountain to provide its
10 customers a corrected form of notice by January 21, 2011, and to file certification of such notice by
11 February 4, 2011.

12 9. On January 7, 2011, Granite Mountain filed certification of notice, along with a copy
13 of the notice provided, showing that corrected notice had been sent to its customers on December 31,
14 2010.

15 10. On February 28, 2011, Granite Mountain filed an Amendment to Finance Application
16 requesting that its application be amended to request authorization to obtain the entire amount of
17 long-term debt requested (\$181,320) in the form of a WIFA loan and only to obtain a loan from
18 National Bank of Arizona to make up any difference between \$181,320 and the amount of any WIFA
19 loan received, should WIFA not authorize a loan at all or not authorize a loan for the entire amount
20 requested.

21 11. On April 6, 2011, the Commission's Utilities Division ("Staff") filed a Staff Report
22 recommending approval of Granite Mountain's application with conditions.

23 12. On May 5, 2011, Staff filed a Notice of Clarification to make the recommendations in
24 the Staff Report as to filing deadlines consistent with the extensions granted in Decision No. 72294.

25 **Staff Analysis and Recommendations**

26 13. Staff provided the following breakdown of the replacement well and 50,000-gallon
27 storage tank projects, with the estimated costs provided by Granite Mountain:

28

Project Descriptions	Estimated Cost
I. Replace Well No. 5 (DWR #55-622083)	
Drill well (depth 700' and 6" casing)	\$ 25,337.90
Well pump (65 GPM submersible) and electric wiring	5,500.00
Electric conduit, control panel (including labor and installation)	5,740.20
6" water mains	27,537.02
Power line extension by APS (\$16.66/ft.)	6,640.00
Power service wire by APS (\$5.10/ft.)	102.00
Power switch gear by APS (\$15,519/unit)	15,519.00
One 277/480 V transformer by APS (\$13,277/unit)	13,277.00
One chlorinator	700.00
6' tall chain link fence and well house	10,000.00
Subtotal	110,377.12²
5% Engineering and Contingencies	5,518.86
Total	115,895.98
II. Tank No. 3 Project (50,000-gallon tank)	
Engineering design & survey	2,000.00
Construction permit fee	500.00
Bedding & foundation installation	502.27
Soil compaction report	515.00
Installation of one 50,000-gallon tank (16' in height)	57,850.00
6" & 4" valves, 6" pipes, and 6" and 8" tees	940.25
Subtotal	62,307.52
5% Engineering and Contingencies	3,115.37
Total	65,422.89
Total for Projects I & II	\$181,328.87³

14. Staff reviewed the proposed projects and the estimated costs and determined that Granite Mountain's decision to install a new replacement well and to add a 50,000-gallon storage tank is reasonable, that the financing application is appropriate, and that the estimated costs are reasonable. Staff has not made a "used and useful" determination regarding the project items, and no particular treatment should be inferred for ratemaking or rate base purposes in the future.

² The breakdown figures actually subtotal \$110,353.12. It is unclear whence the \$25.00 discrepancy arises, but the error is not significant enough to explore further or to affect the Commission's analysis of the application.

³ The project totals provided actually total \$181,318.87. It is unclear whence the \$10.00 discrepancy arises, but the error is not significant enough to explore further or to affect the Commission's analysis of the application.

1 15. As of December 31, 2008, Granite Mountain's capital structure consisted of no short-
2 term debt, no long-term debt, and 100 percent equity.

3 16. Assuming issuance of a 20-year loan in the amount of \$181,320, with amortization of
4 7.0 percent per annum, Staff calculated Granite Mountain's pro forma capital structure to be 0.7
5 percent short-term debt, 28.0 percent long-term debt, and 71.3 percent equity. In addition, Staff
6 calculated a pro forma debt service coverage ("DSC") ratio of 3.56, which indicates that cash flow
7 from operations is sufficient to cover all obligations, including WIFA's requirement to fund a "Debt
8 Service Reserve Fund" equal to 20 percent of debt service.

9 17. Staff concluded that issuance of the proposed long-term debt financing for the
10 purposes stated in Granite Mountain's application is within Granite Mountain's corporate powers, is
11 compatible with the public interest, and is consistent with sound financial practices.

12 18. Staff recommends that:

- 13 a. Granite Mountain be authorized to obtain an 18- to 22-year amortizing loan, in
14 an amount not to exceed \$181,320, pursuant to a loan agreement with WIFA
15 or, alternately if necessary, the National Bank of Arizona;
- 16 b. Any authorization to incur long-term debt granted in this proceeding terminate
17 on December 31, 2012;
- 18 c. Granite Mountain be authorized to engage in any transaction and to execute
19 any documents necessary to effectuate the authorizations granted herein;
- 20 d. Granite Mountain be required to file with Docket Control, within 60 days of
21 the execution of any financing transaction authorized herein, as a compliance
22 item in this docket, copies of the loan documents; and
- 23 e. Granite Mountain be required to file the following documents with Docket
24 Control, as compliance items in this matter, by the following deadlines:
- 25 i. By September 1, 2011, copies of an ADEQ ATC for the proposed well,
26 ii. By September 1, 2011, copies of an ADEQ ATC for the storage tank,
27 iii. By September 1, 2012, copies of an ADEQ AOC for the proposed well,
28 and

iv. By September 1, 2012, copies of an ADEQ AOC for the storage tank.

Resolution

19. Granite Mountain's proposed replacement well and 50,000-gallon storage tank projects are appropriate improvements for Granite Mountain to make to its system to help ensure that it can continue to provide safe and adequate service to its customers, and Staff's recommendation to approve the proposed long-term debt to enable Granite Mountain to complete the projects is reasonable and appropriate and will be adopted, with minor modifications. Because it is possible that WIFA could agree to provide a loan for only a portion of the \$181,320 requested, we will modify Staff's recommendation to accommodate a scenario under which Granite Mountain obtains loans from both WIFA and National Bank of Arizona to make up the \$181,320 authorized. In addition, because Staff has not recommended a ceiling on the interest rate permissible for the amortizing loan or loans, we will restrict the interest rate for any loan to the prime rate at closing plus three percent. Finally, because there is no indication that Granite Mountain has applied for or obtained an ATC for the storage tank,⁴ and in order to avoid a request for an extension of filing deadlines from Granite Mountain should the process to apply for and obtain such an ATC take longer than three months, we will extend the compliance filing deadlines for copies of the ATC for the storage tank and the AOC for the storage tank to March 1, 2012, and March 1, 2013.

CONCLUSIONS OF LAW

1. Granite Mountain is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-285, 40-301, 40-302, and 40-303.

2. The Commission has jurisdiction over Granite Mountain and the subject matter of the financing application.

3. Notice of the financing application was provided in accordance with the law.

4. The financing approved herein is for lawful purposes within Granite Mountain's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by Granite Mountain of service as a public service corporation and will not

⁴ Decision No. 72294 found that Granite Mountain had applied for an ATC for the replacement well.

1 impair Granite Mountain's ability to perform the service.

2 5. The financing approved herein is for the purposes stated in the application and is
3 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
4 chargeable to operating expenses or to income.

5 6. Approval of the proposed financing is not intended to be and should not be interpreted
6 to guarantee or to imply any specific treatment of any capital additions for rate base or ratemaking
7 purposes.

7. With the modifications set forth in Findings of Fact No. 19, Staff's recommendations are reasonable and appropriate and should be adopted.

10 ORDER

11 IT IS THEREFORE ORDERED that Granite Mountain Water Company, Inc. is hereby
12 authorized to incur long-term debt, in the form of one or more 18- to 22-year amortizing loans, in a
13 total amount not to exceed \$181,320, pursuant to loan agreement/s with the Water Infrastructure
14 Finance Authority of Arizona and/or National Bank of Arizona, at an interest rate not to exceed the
15 prime rate at the time of each transaction's closing, plus three percent.

16 IT IS FURTHER ORDERED that any unused authorization to incur long-term debt granted in
17 this proceeding shall terminate on December 31, 2012.

18 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. is hereby
19 authorized to engage in any transaction and to execute any documents necessary to effectuate the
20 authorizations granted herein.

21 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall, within 60
22 days of the execution of any financing transaction authorized herein, file with Docket Control, as a
23 compliance item in this docket, copies of all executed financing documents related to the
24 authorizations granted herein.

25 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall file the
26 following documents with Docket Control, as compliance items in this matter, by the following
27 deadlines:

28 i. By September 1, 2011, copies of an Arizona Department of Environmental Quality

Approval to Construct for the proposed well;

ii. By March 1, 2012, copies of an Arizona Department of Environmental Quality

Approval to Construct for the storage tank;

iii. By September 1, 2012, copies of an Arizona Department of Environmental Quality

Approval of Construction for the proposed well; and

iv. By March 1, 2013, copies of an Arizona Department of Environmental Quality

Approval of Construction for the storage tank.

IT IS FURTHER ORDERED that approval of the financing set forth herein does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2011.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: GRANITE MOUNTAIN WATER COMPANY, INC.

2 DOCKET NO.: W-02467A-10-0483

3
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5 Matthew Lauterbach, Water Administrator
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